

# Senate Study Bill 1226

SENATE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
COMMERCE BILL BY  
CO=CHAIRPERSONS BEHN  
and WARNSTADT)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act providing for the regulation of persons engaged in  
2 soliciting business opportunities, including franchises.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
4 TLSB 2143SC 81  
5 da/gg/14

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1 1 Section 1. Section 551A.3, subsection 3, paragraphs a and  
1 2 b, Code 2005, are amended to read as follows:  
1 3 a. A uniform franchise offering circular prepared in  
1 4 accordance with the guidelines adopted by the North American  
1 5 securities administrators association, inc., ~~as amended~~  
1 6 ~~through July 1, 2004.~~

1 7 b. A disclosure document prepared pursuant to the federal  
1 8 trade commission rule relating to disclosure requirements and  
1 9 prohibitions concerning franchising and business opportunity  
1 10 ventures in accordance with 16 C.F.R. } 436 or any successor  
1 11 regulation.

1 12 Sec. 2. Section 551A.4, subsection 1, paragraph b, Code  
1 13 2005, is amended to read as follows:

1 14 b. An offer or sale of a business opportunity which is a  
1 15 franchise, provided that the seller delivers to each purchaser  
1 16 at the earlier of the first personal meeting between the  
1 17 seller and the purchaser, or ~~ten business~~ fourteen days prior  
1 18 to the earlier of the execution by a purchaser of a contract  
1 19 imposing a binding legal obligation on the purchaser or the  
1 20 payment by a purchaser of any consideration in connection with  
1 21 the offer or sale of the business opportunity, one of the  
1 22 following disclosure documents:

1 23 (1) A uniform franchise-offering circular prepared in  
1 24 accordance with the guidelines adopted by the North American  
1 25 securities administrators association, inc., ~~as amended~~  
1 26 ~~through September 21, 1983.~~

1 27 (2) A disclosure document prepared pursuant to the federal  
1 28 trade commission rule entitled "Disclosure requirements and  
1 29 prohibitions concerning franchising and business opportunity  
1 30 ventures", 16 C.F.R. } 436 ~~(1979)~~ or any successor regulation.

1 31 For the purposes of this paragraph "b", a personal meeting  
1 32 means a face-to-face meeting between the purchaser and the  
1 33 seller or their representatives, which is held for the purpose  
1 34 of discussing the offer or sale of a business opportunity.

### EXPLANATION

2 1 Code chapter 554A regulates the promotion of business  
2 2 opportunities whenever a person (seller) solicits a person  
2 3 (purchaser) to make an initial investment in exchange for  
2 4 products or services which purportedly will enable the  
2 5 purchaser to start a business. These business arrangements  
2 6 are provided under contract and much of the Code chapter  
2 7 regulates how these contracts are prepared and presented to  
2 8 purchasers.

2 9 Code section 551A.3 requires the seller to make formal  
2 10 disclosures to potential purchasers, including by furnishing a  
2 11 disclosure document to the purchaser 10 days prior to  
2 12 executing a contract or receiving payment. The disclosure  
2 13 document may be in a number of forms, including two standard  
2 14 nonstate forms: (1) a uniform franchise offering circular  
2 15 prepared in accordance with the guidelines adopted by the

2 16 North American securities administrators association, inc., or  
2 17 (2) a document prepared according to rules adopted by the  
2 18 federal trade commission. The Code section ties these  
2 19 requirements to preexisting forms established on a date  
2 20 certain (July 1, 2004) or according to a federal citation (in  
2 21 the code of federal regulations). The bill eliminates this  
2 22 requirement which ties the forms to a specific date or  
2 23 citation. The effect of the amendment is that state law would  
2 24 adopt by reference a form or a change in a form prepared by  
2 25 the foreign entities.  
2 26 Code section 551A.4 provides that certain transactions are  
2 27 exempt from the disclosure requirements, and one of these  
2 28 exemptions concerns a business opportunity for a franchise  
2 29 under certain conditions. The person offering to sell the  
2 30 franchise must still deliver to the purchaser one of the  
2 31 standard nonstate disclosure forms prior to the execution of  
2 32 the contract or receipt of payment. Again, the bill  
2 33 eliminates the reference to a date certain or a specific legal  
2 34 reference with the same effect as the amendment to Code  
2 35 section 551A.3. In addition, the bill extends the period of  
3 1 disclosure from 10 business days to 14 calendar days prior to  
3 2 execution of the contract or receipt of payment.  
3 3 LSB 2143SC 81  
3 4 da:rj/gg/14.1